



U.S.-Russia Relations:
Death of the 1990s

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The summit meeting at Kennebunkport, Maine between Presidents George W. Bush and Vladimir Putin was meant to smooth over the harsh rhetoric bandied about between Moscow and Washington over the past several months. The primary points of contention are similar to past controversies, namely defense issues in Eastern Europe and Eurasia, as well as political developments in Russia. But in fact, the Kennebunkport summit may have signified something much more profound: the death of the bilateral relationship of the 1990s. In this case the death was both literal (with the passing of Boris Yeltsin) and figurative, given Russia's economic and political resurgence and the United States' reeling international image.

The 1990s marked the nadir of Russia's international standing. Few in Russia look wistfully back on the days of economic and political chaos in that country. GDP declined by 50 percent between 1991 and 1995, unbridled NATO expansion took place along Russia's western borders, and the bilateral relationship was viewed by most in Russia as one in which the U.S. was clearly the dominant partner. The perception was that every time Washington told Moscow to jump, the response was: "How high?" Now, Vladimir Putin, flush with cash, possessing undisputed political power at home, and author of an ambitious agenda overseas and domestically, has come at the invitation of George Bush to be recognized as a political equal. A headline in the influential Russian daily *Izvestia* on July 2 summed up the expectations in Russia: "Normal Relations Between Big Boys." People can argue about whether the Cold War has reemerged or whether it ever went away. But one thing is clear: the 1990s have died. Russia has boldly declared that it will no longer stand by and watch the U.S. dictate the political agenda in Eastern Europe and Eurasia. A literal sign marking this change can be seen with the passing on April 23 of Boris Yeltsin, Russia's first post-Cold War president who oversaw the 1990s chaos.

Bad blood or domestic posturing?

The majority of the analysis of U.S.-Russian relations in the Western and Russian press these days is direly pessimistic. There is no question that relations have regressed since the days of the post-Sept. 11 "strategic partnership." But as was argued here last quarter, relations have not regressed to the tenor of the Cold War. They more resemble the tone in late 1999 after the NATO bombing of Yugoslavia (when Putin was prime minister). And like that turbulent year, defense issues primarily shape the relationship today. This

quarter was no exception. Missile defense, the CFE Treaty, START I (due to expire in 2009), and NATO expansion were the headline issues, as well as the Iran and Kosovo situations. The two presidents did manage to tone down the rhetoric at the summit in Kennebunkport. There, the two leaders met like old friends and reaffirmed their friendship, if also their inability to see eye-to-eye on many issues.

The harsh rhetoric of the past few months is nothing new. In fact, political players in the two nations have been expressing frustration and vexation with the other side with regularity since 2003 (after the beginning of the war in Iraq). But what seems to have taken this invective to an even higher level over the last quarter is the posturing of Putin himself. In the last few months, Putin (to paraphrase his words) has criticized the U.S for preaching about democracy without practicing it at home, has compared Bush administration policies to those of the Third Reich, and has cast aspersions on the U.S. for using atomic weapons against a civilian population and chemical weapons against a third-world nation. Putin has repeatedly singled out Washington in public speeches, some of these abroad, others at home. The Russian government has strongly opposed U.S. plans to deploy a missile defense system in the Czech Republic and Poland. Putin has declared a moratorium on Russia's implementation of the Conventional Forces in Europe (CFE) Treaty and has threatened to re-target nuclear missiles on Europe (ostensibly NATO members).

The leadership in the U.S. has not taken all this sitting down. For instance, Bush was quoted by a prominent Russian daily (*Kommersant*) accusing Moscow of "instigating a cold war." Secretary of State Condoleezza Rice has called Russia's political development "troubling." Rice's State Department this quarter issued two reports condemning Russia's human rights' record and the state of media freedom in that country. Congress (on both sides of the aisles) has consistently leveled criticism at Russia, and Putin in particular. Rep. Tom Lantos recently compared Putin to Popeye, gulping down spinach in the form of bloated oil profits. One U.S. official termed the dialogue, "a rhetorical race to the bottom."

Putin's remarks seem to be particularly harsh and his tone is always steely and combative. His seeming deep anti-Americanism should probably be taken at face value. Given Putin's training and background as a KGB operative (Gorbachev and Yeltsin were apparatchiks and party bosses for their respective regions) it might not be mistaken to ascribe Putin's visceral hatred of the U.S. to his experiences as a 'foot soldier' in a losing war (the Cold War). And perhaps his anger has built up during his two terms, but being the cautious, calculating man he is, he decided to keep this inside of him, until recent months. Why the change? Two possible answers could be that his term is drawing down (thus excusing him from being politically correct at all times) and that he is pandering to domestic political sentiment. In Moscow (and elsewhere in Russia) the expanding economy has led to a growing confidence among the populace and heightened irritation at the perceived high-handed attitude of Washington over the past two administrations.

But does this mean the “new Cold War” as many have come to call the situation reaches the level of the 1940s-1980s? No matter how harsh the rhetoric, the two nations do recognize the strategic necessities of avoiding a relationship like that prior to the 1990s. The two nations are competitors, but not sworn enemies. Russia is looking to restore influence in the regions (Eastern Europe and Eurasia) that traditionally have been important to its national security. The U.S., meanwhile, is very busy cementing a new place for NATO in Eastern Europe and for itself in Central and South Asia. Although many in the U.S. can understand the Russian viewpoint, they cannot understand why the Russian leadership seems bent on poisoning the bilateral partnership, since this partnership will do more to ensure Russian national security in the 21st century than any other. In fact, Putin’s very public criticism may be a cynical way of easing his successor into office, by allowing this successor (whether it be Sergei Ivanov or Dmitri Medvedev) to be seen as relatively pro-American in comparison to Putin.

The Gabala gambit in Heilegendamm

On June 6-8, leaders of the G-8 nations gathered for a summit in Heilegendamm, Germany. As usual, trade issues were high on the agenda. For the European G-8 member countries, energy security was an issue of concern given Russia’s recent penchant for bullying neighbors, and at least twice shutting off gas or oil supplies for brief periods to back up a point. But the headline-grabbing event at Heilegendamm was the proposal by Putin to share a radar facility in Azerbaijan with the U.S. in the development of the U.S./NATO missile defense system in Europe. In the weeks leading up to the summit, the proposed missile defense system, and in particular U.S. plans to install a radar station in the Czech Republic and 10 missile interceptors in Poland, had irked the Kremlin no end. Putin and almost all his top advisors had publicly criticized the U.S. for installing a system that was “clearly aimed at Russia.” Bush sent both Defense Secretary Robert Gates and Secretary Rice on two different occasions to Moscow in April and May to assuage the Russian side, but to little effect. Until the eve of the Heilegendamm summit, the Russian government continued its criticism of the proposed missile defense system.

At the summit Putin surprised Bush by suggesting that in place of a radar facility in the Czech Republic, the U.S. and Russia could share a facility at Gabala in Azerbaijan. The U.S. side appeared to be slightly taken aback, and Bush promised to study the “interesting proposal.” One of the more surprising aspects of the Russian proposal was the tacit admission that Iran is indeed a problem state. Russia has clearly relaxed its support for Iran in the last half year, and this proposal highlights this fact. The Iranian government protested the Russian proposal and asked for clarification. The Russian government issued several statements in an attempt to mollify Tehran.

In the United States, and to a lesser extent in Russia, many experts dismissed the proposal as nothing more than a gambit, with little serious substance. The facility – they argue – is located in a poor position geographically (too close to account for Iran’s northeastern section), and has aged quite poorly. In fact, before Bush even returned home both the White House and the Pentagon downplayed the offer, and insisted that even were there to be cooperation at Gabala, the U.S. would still push for facilities in Eastern Europe.

Energy issues

Across Eurasia, the Russian government continues to seek direct control of the vital energy resources in the region (or at least to control access to these resources). In the Russian Far East, BP became the latest Western victim of a hostile takeover by the growing behemoth Gazprom. Late last year Gazprom was able, with the help of the Russian Ministry of Fuel and Natural Resources, to gain control of the Sakhalin-2 project. Faced with the threat of the revocation of its operating license (due to “environmental transgressions”), Shell and its Japanese partners Mitsui and Mitsubishi agreed to sell a controlling portion of the Sakhalin-2 project shares to Gazprom.

Although BP was not faced with a similarly explicit threat, political pressure was brought to bear on BP and its Russian partner TNK. It was clear that the Kremlin and Gazprom were prepared to turn up the heat. Rather than face a situation similar to that faced by Shell and partners late last year, BP agreed to sell its controlling stake (63 percent) in the coveted gas fields near Kovykta (which is located to the northwest of Lake Baikal). Although details have not been made public, it is said that BP sold the rights to Gazprom for one-third their market value (Shell also agreed to part with its shares for less than fair value). One Russian source (*RIA-Novosti*) referred to Gazprom’s intervention as a “rescue” of the Kovykta fields.

Exxon-Mobil, which controls the Sakhalin-1 project, has thus far been above the fray and has maintained a cordial relationship with Russian authorities. But recent tidings may not bode well for this giant in the Russian Far East. Gazprom’s Deputy Chief Executive Alexander Medvedev told Exxon executives that his firm is opposed to Exxon-Mobil’s plan for gas exports to China from the Sakhalin-1 project. Medvedev stated that the natural gas produced by the Sakhalin-1 project should be used for Russian domestic consumption. Medvedev then suggested that Exxon-Mobil should coordinate long-term export plans with Gazprom. It is no coincidence that Gazprom has its own gas export plans for China, and these are likely to involve the Kovykta fields. It bears mentioning that Dmitri Medvedev (no relation to Alexander), the deputy prime minister and close Putin confidante, is also chairman of the board of Gazprom. The connection between the Kremlin and Gazprom is close, to say the least.

In Central Asia, Russia is doing its utmost to outfox U.S. and Western pipeline strategies. Kazakhstan and Turkmenistan are being lined up to supply Russian pipelines emanating from the region with oil and gas aplenty. These pipelines run directly to Europe, and a new pipeline is being connected through the Balkans to ports on the Adriatic Sea that can get resources to market as easily as the U.S.-backed Baku-Ceyhan pipeline can. Putin visited both Kazakhstan and Turkmenistan for almost a week in May. Putin’s interest in reviving relations with two of the resource-richest nations in Central Asia is not only because of the economic and strategic U.S. presence there, but also due to China’s growing interest and economic presence in the region. Meanwhile, Putin’s visit to an energy summit in Austria on May 23-24 suggests that Russia may be considering making that country an energy hub to Europe for Gazprom.

Kennebunkport, Maine

Just prior to the Heilegendamm summit, Bush invited Putin to visit the family home in Kennebunkport, Maine. This gesture was made even as Putin was making his comparison of the U.S. to Nazi Germany. The angry rhetoric continued to emanate from Moscow right up to the Kennebunkport summit. It is interesting to note that the last visits to the two presidents before the summit were made by President Tomas Ilvas of Estonia to Washington and Venezuelan President Hugo Chavez to Moscow. Both leaders have made news of late with combative comments to their larger neighbors. The symbolism seemed to bode poorly for the summit.

The summit, contrary to the expectations of many observers, was cordial. The short and informal nature of the meeting prevented the two from coming up with substantive results given the broad nature of the bilateral relationship. Strategic issues were the focus, which meant the economic and energy issues were skirted. Bush and Putin were able to calmly discuss major issues on the agenda: missile defense, Iran, nuclear proliferation, and Kosovo. The two leaders also demonstrated that they do feel comfortable around one another. Chummy personal relationships may hark back too closely to the 1990s for some observers, but this has not affected how these two presidents prefer to interact.

At Kennebunkport, Putin took a step beyond his Gabala “gambit” and proposed that the two nations cooperate in building a European-wide missile defense system, which would include a radar facility in Russia. Putin said that he would favor establishing the system under the aegis of the NATO-Russia Council. He also said that Russia would agree to modernize the Gabala facility. In return, Putin suggested that no additional facilities would be necessary elsewhere in Europe. If the U.S. accepts this plan, Putin said, then relations would move “to an entirely new level.” Although Bush expressed interest in the proposal and promised to study it further, he pointed out his desire to include Poland and the Czech Republic in any missile defense system.

The two leaders did agree on the need to keep Iran from advancing further down the road toward nuclear proliferation, and although no details were given, the two governments could come out with a new proposal to keep pressure on Iran. In this regard the two presidents promised to send a “common message” to Iran about nuclear proliferation. Additionally, the Russian Federal Agency for Nuclear Power (Rosatom) pledged that all fuel given to Iran for its Bushehr reactor would be returned to Russia once it was spent.

The Strategic Arms Reduction Treaty (START I) is due to expire in 2009, so the two governments put into motion a process that aims to extend this agreement. On July 3, Secretary Rice and Foreign Minister Lavrov signed an accord that will mark the beginning of talks aimed at establishing a new strategic arms framework based on START I. Although the two leaders did discuss the Kosovo independence issue, it is unclear how far the discussions went. The U.S. and NATO support independence, and Russia backs Serbia in opposing this. Moscow, of course, is concerned about the precedent this would set for smaller states breaking away from larger ones. Russia has had this concern since the break-up of the Soviet Union, as there are a number of

candidates for independence along Russia's long periphery. On the other hand, when this issue comes to a UN vote, the Russian government may hypocritically choose to abstain, in hopes that a precedent is established, thus allowing two small regions of Georgia to break away and become part of Russia (Abkhazia and South Ossetia).

East Asian affairs

Russia's influence on the Korean Peninsula may actually be reawakening. In order to restart Six-Party Talks and to freeze the DPRK's nuclear program, Pyongyang has demanded that funds (\$25 million) it holds in a bank in Macao be unfrozen and transferred back to its own coffers. For four months a bureaucratic and political knot had held up this transfer. Many banks balked at the idea of transferring the funds for fear of being associated with and tainted by this "dirty money" (it was frozen as a result of accusations of money laundering and illicit activities). At the 11th hour the Russian government offered its services. In a roundabout way, the money was transferred from Banco Delta in Macao to the Federal Reserve Bank of New York, thence to the Russian Central Bank. In Russia, the Far Eastern Commercial Bank (Dalkobank) in Vladivostok agreed to transfer the \$25 million back to Pyongyang. This gesture was the most productive act that Russia has carried out as a participant in the Six-Party Talks. Whether this will reinvigorate Russia's role on the Korean Peninsula remains to be seen.

Elsewhere across East Asia, the Russian government has made a concerted effort to step up its nuclear exports in the region. Sergei Kiriyenko, head of Rosatom, announced a plan to construct floating nuclear power plants. The first such plant will be available in 2010 and Russia hopes to partially meet energy demands in its own far eastern regions. But Rosatom also hopes to export these plants, particularly in Asia, where China, Indonesia, and Malaysia have expressed interest. This spring also saw the announcement by the Russian Ministry of Industry and Energy (of which Rosatom is an agency) of plans to dispense nuclear technology and assistance to Japan, Myanmar, and Vietnam. Upon the announcement of nuclear aid to Myanmar, the State Department issued a severe criticism of the Russian plans to build a research reactor in that nation. This will undoubtedly fall on deaf ears as Russia's plan for increased exports to East Asia is spearheaded by nuclear technology and other forms of energy, as well as weapons.

In this vein, in late June the Indonesian government announced that it would sign a contract to purchase a number (yet unspecified) of corvette ships. These fast ships are ideal for littoral area operations. The hulls will be laid in Spain, while Russia will handle the final outfitting of systems and weapons. Each would cost between \$120-150 million. It is the latest in a series of defense deals between Jakarta and Moscow since 2003.

In broken record fashion, Japan and Russia continue to spar over the disputed territories. In June, Foreign Minister Lavrov became the first Russian foreign minister to visit the disputed islands since the collapse of the Soviet Union, visiting Kunashiri and Shikotan Islands. Lavrov's visit to the "Northern Territories" threw the Japanese government into a panic, as preparations were underway for Prime Minister Abe Shinzo to meet Putin at Heilegendamm and discuss the territorial dispute. In a press conference prior to the

summit, Putin announced with typical steely resolve that Russia was amenable to a settlement, but under the current circumstances it would be “difficult to find new measures [leading to a settlement].” At Heilegendamm, however, Abe offered to increase Japanese investment in the Russian Far East and the Kuril Islands, undoubtedly hoping to secure a favored position in Putin’s eyes. Nevertheless, the future seems to hold little promise – barring a geopolitical shift – for a settlement. Time is on Moscow’s side, and it can wait for further Japanese investment in the far eastern regions as it becomes economically feasible.

Upcoming

One event to look forward to is the Shanghai Cooperation Organization (SCO) summit meeting, which is due to take place in Bishkek, Kyrgyzstan on Aug. 16-18. Iran and Kosovo will also be worth watching as they affect U.S.-Russian relations. In particular, Kosovo’s future will be debated in the U.N. Washington will look to hold Moscow to account, given its promises to put more pressure on Tehran to give up its nuclear ambitions. Likewise, now that the DPRK has said it would allow nuclear inspectors back into facilities in that country, it will be worth watching to see whether Russia will attempt to step up activity in light of its recent success in helping to solve the bank imbroglio. Lastly, Washington will have to answer soon to Putin’s latest proposal for a European-wide missile defense system.

With the two presidents stepping down next year, Bush and Putin find themselves in different positions. One is losing popularity, fighting tougher battles against domestic opposition, and facing a legacy of defeat in Iraq. The other has never been more admired at home (especially given Sochi’s selection as site of the 2014 Winter Olympics), has a booming economy, and has cemented his legacy of bringing Russia back to the table of big power diplomacy. Their relationship seems to mirror these trajectories as Bush has gone out of his way to reach out to Putin, even as Putin’s criticism of the U.S. has grown increasingly shrill. Expect this criticism to grow even louder as the U.S. presidential campaign goes into full swing.

Chronology of U.S.-Russia Relations

April-June 2007

April 2-3, 2007: U.S. Commerce Secretary Carlos Gutierrez visits Moscow and meets Russian Economic Development and Trade Minister German Gref to discuss Russia’s WTO accession.

April 5, 2007: U.S. Department of State releases annual report on human rights around the world. Russia gets a low grade in press freedom and political suppression.

April 10, 2007: U.S. Trade Representative Susan Schwab allegedly states that Russia is not ready to join the WTO and that Jackson-Vanik will remain in effect for the time being. Schwab later claims she was not accurately quoted.

April 18, 2007: Russian First Deputy Prime Minister Sergei Ivanov says that he does not see any need for Russian-U.S. cooperation in strategic missile defense. The U.S. government has offered to cooperate with Moscow to diffuse tension over this issue.

April 21, 2007: U.S. Secretary of Defense Robert Gates meets top Kremlin officials in Moscow – including Russian DM Anatoly Serdyukov – to discuss defense cooperation.

April 23, 2007: Russia’s first President Boris Yeltsin passes away.

April 26, 2007: In a Russian Duma address, President Vladimir Putin says he plans to suspend Russia’s commitments under the Conventional Forces in Europe (CFE) treaty.

April 30, 2007: Russia is placed by the U.S. Department of Commerce on a priority watch list for copyright piracy.

May 3, 2007: Japanese Foreign Minister Taro Aso arrives in Moscow for a short visit with Russian counterpart Sergei Lavrov, the first visit in three years by a Japanese foreign minister to Moscow.

May 8, 2007: In a speech on V-E Day in Moscow, Putin makes oblique comparisons between the U.S. and Nazi Germany.

May 9, 2007: Putin sets off on a six-day trip to Kazakhstan and Turkmenistan.

May 10, 2007: In a meeting with NATO officials, Russian Gen. Yury Baluyevsky, chief of the General Staff of the Russian Armed Forces, states that the CFE Treaty is on the “brink of collapse.”

May 10, 2007: In a talk at the Senate, Secretary of State Condoleezza Rice says that “the concentration of power in the Kremlin has been troubling.”

May 14, 2007: Rice arrives in Moscow to patch relations between Moscow and Washington on the eve of the G-8 summit. Rice meets Putin and FM Sergei Lavrov.

May 16, 2007: The State Department expresses concern over the prospect of a Russian deal to provide a nuclear research reactor for Burma which has “neither the regulatory nor the legal framework or safeguard provisions” to handle a nuclear program.

May 23-24, 2007: Putin visits Austria for an energy summit. Austria signs a long-term contract with Gazprom to meet 80 percent of Austria’s gas needs for the next 20-years.

May 29, 2007: The Russian armed forces test-launch two ballistic missiles, purportedly in response to U.S. plans for the European-based missile defense system.

May 31, 2007: President Bush begins European tour to the Czech Republic, Poland, Germany, Italy, Albania, and Bulgaria. Bush is en route to the G-8 summit on June 6-8.

June 3, 2007: FM Lavrov visits two of the four Russian-held islands claimed by Japan. He then travels to Seoul to meet Korean leaders.

June 6-8, 2007: The G-8 summit is held in Heiligendamm, Germany.

June 7, 2007: At the G-8 summit, Putin proposes that Russia share a radar facility with the U.S. in Azerbaijan (Gabala). Putin hopes the U.S. will abandon plans for establishing a radar facility in the Czech Republic and an interceptor station in Poland.

June 7, 2007: Japanese Prime Minister Abe Shinzo and Putin hold a meeting on the sidelines of the G-8 summit.

June 15, 2007: Secretary Gates meets Russian DM Serdyukov on the sidelines of a NATO ministerial meeting in Brussels.

June 21, 2007: In a meeting with Russian educators, Putin lashes out at “foreign” critics of the Stalinist purges, saying that Russia never used an atomic weapon against civilians, or sprayed defoliants across a third world nation.

June 23, 2007: BP agrees to sell its interest in the Kovykta gas field (worth an estimated \$18 billion) in Siberia to the Russian energy giant Gazprom, in the latest state-directed acquisition of energy assets across Russia.

June 23, 2007: Putin attends a Balkan energy summit in Zagreb. The next day he travels to Istanbul to attend the summit of the Black Sea Economic Cooperation Organization.

June 23, 2007: Russian Finance Ministry confirms transfer of funds from the Delta Banco Asia to North Korea was completed via Dalkombank.

June 28, 2007: For the second time in a month Russia test-fires a long-range missile, successfully sending the *Bulava* ICBM from the White Sea to the Kamchatka Peninsula.

June 29, 2007: The U.S. and Russian governments sign a Section 123 Agreement opening the road for further civilian nuclear cooperation.

July 1-2, 2007: Vladimir Putin visits George Bush at the Bush family home in Kennebunkport, Maine.

July 3, 2007: Secretary Rice and FM Lavrov sign an accord to establish a new strategic arms framework based on START I.

July 4, 2007: International Olympic Committee awards 2014 Winter Games to Sochi, Russia.